

**CONFIDENTIAL**  
SECURITY INFORMATION

Psychological Implications of U. S. Foreign Economic Policy

1. General Situation

Reports from U. S. missions in Asia, Europe and Latin America increasingly stress that U. S. leadership in the free world is at stake if we do not take action to regain the initiative in the foreign economic field. The President's excellent speech of April 16 led to anticipation and hope that the United States and the free world had grasped the initiative from the Soviet Union. The last section of the speech, proposing a world fund for economic reconstruction, in particular raised the hopes of millions for a better life if only the objectives of U. S. foreign policy could be achieved.

In the last two months, however, lack of positive achievement in the foreign economic field has cost us much of the impetus gained by the speech in the free world and has made effective psychological exploitation of the economic portions of it impossible. Furthermore, the decision to postpone basic foreign economic policy decisions for a year; the enormous amount of unfavorable publicity generated by the failure of the low-bid English firm to obtain the contract for the Chief Joseph Dam, which greatly overshadowed subsequent contracts awarded to the same company; and our failure to offer Japan any hope of substantial relief from U. S. trade barriers, seen to other free peoples, in the aggregate, to contradict the generous, far-sighted spirit of the President's speech. This alternate raising and dashing of hopes has led to doubt and disillusionment with psychological ramifications far beyond the purely economic field.

Meanwhile, the Russians and Chinese Communists have intensified their campaign to isolate the U. S. and so to destroy its leadership of the free nations. A most effective Communist weapon has been the coordinated use of psychological

**CONFIDENTIAL**  
SECURITY INFORMATION

CONFIDENTIAL  
SECURITY INFORMATION

and economic warfare; on the one hand, by widely heralded offers of new markets for free world goods and tempting new sources of needed raw materials; and on the other, by loud claims that U.S. failure to take the lead in the international economic field indicates the spurious nature of our leadership.

2. U.S. Foreign Economic Actions Weaken Confidence in U.S. Leadership.

Our foreign economic policy is a crucial element in determining how much cooperation we will get from other free countries. Without consistent policies in this field, our political and military leadership cannot for long be effective. The attitude of foreign people towards the U.S. is conditioned by the totality of our actions -- political, military, and economic. These elements must be mutually supporting in creating an attitude of confidence in U. S. leadership, and weakness in any one of them adversely affects the others.

U.S. action which hits the already slender pocketbook of the Italian farmer by cutting down the amount of filberts, almonds or cheese which he can sell in the U.S. has important adverse repercussions on his attitude towards the U.S. and towards his trust in our ability to lead the free world. Such action also undermines his confidence in his own government which has a policy of cooperation with the U.S. Similarly, our diplomatic efforts to further economic integration in Western Europe are seriously undermined when the conflict between our policies and practices seems to indicate that we would like to have our allies do as we say and not as we do.

As the Canadian Prime Minister in his aide-memoire of May 8, 1953 pointed out to us, there is increasing evidence that the efforts of the free world to achieve political unity and security are being undermined by inadequate policies affecting international economic relations. The Canadian

CONFIDENTIAL  
SECURITY INFORMATION

~~CONFIDENTIAL~~  
SECURITY INFORMATION

Government is not alone among our allies to become "increasingly concerned over the continuing weakness and precarious nature of the international economic structure upon which our free world's political and military cooperation is built."

It should also be apparent to us, following the efforts to increase the defense build-up in the NATO, that the free world has not yet provided an economic foundation upon which to build a strong mutual defense effort. If we are to maintain the confidence, even of our closest allies, we need to exert more positive U.S. leadership in the economic phases of the cold war.

The following are a few illustrations of how some other nations feel about current and proposed U. S. policies toward international trade:

1. U.K. Embassy London reports growing British pessimism about U. S. foreign economic policy and indicates that this has its effect in other fields. "It contributes to general anti-American feeling here. It makes it more difficult for us to carry the British further along the road toward controlling East-West trade. It can have a serious dampening effect on the incentives of individual British exporters to make the effort necessary to try to sell in the American market, and hence handicap the efforts of the Dollar Export Board ... If it goes too far, it can slow down the process of Britain's 'putting her own house in order' since it fosters the impression that such efforts are not really of any use for reasons beyond Britain's control. It certainly detracts from the effect of any observations that U.S. officials may make here about the desirability of increased competition in industry."

2. Italy. Clemente Boniver, Commercial Counselor to the Italian Embassy, upon presenting an official note protesting U.S. trade restrictions on Italian agricultural products, indicated that while it is impossible to gauge exactly

~~CONFIDENTIAL~~  
SECURITY INFORMATION

the effect of restrictive trade actions by the U. S. Government on the recent election, he is certain that the Communists made good use of the propaganda value of our actions to increase the size of their vote.

The Italian Government in its recent note compared, without criticism, statements of Administration leaders in favor of increased trade with U. S. Government actions to curb trade. Without threats of retaliation, the Italian Government pointed out that Italy buys American agricultural products valued at five times that which the U. S. buys from Italy and noted that Italy is not "at the present time" enforcing any quantitative limitation on imports of American cotton, wheat, oil seeds, tobacco, etc. Without being specific, the Italian note points out the inconsistency of the U.S. position in imposing countervailing duties on Uruguayan wool tops while we subsidize the exports of such agricultural products as citrus fruits and almonds in direct competition with Italian products.

3. Western Germany. The Federation of West Germany Chambers of Commerce, in an annual report issued on June 5, warned that Germany will have to replace imports from dollar areas by goods of other origin "if the U.S.A. persists in its protectionist attitude toward foreign imports."

Fritz Berg, president of the Federation of Germany Industry, stated at a meeting in New York recently that West Germany could solve its present dollar deficit problem if there were a further reduction in United States tariffs on her products. He noted that the average U. S. tariff on West German goods is 30 per cent ad valorem compared with the West German average rate on U.S. goods of 15 per cent.

4. France. Giscard d'Estaing, head of the French delegation to the International Chamber of Commerce meeting in 1952, said:

CONFIDENTIAL  
SECURITY INFORMATION

"We are greatly concerned with the danger of the increasing autarchy of the United States. This large country, determined to be dependant upon nobody, has set up barriers within the free world which are incompatible with the will to expand trade."

Senator Andrei Dulin, head of the Agricultural Committee of the French Senate, stated at a press conference in New York that the French are anxious to keep buying United States goods, but cannot do so unless this country buys more from them.

5. Denmark. Ole Bjorn Kraft, Danish Foreign Minister, declared in New York on November 17, 1952 that the report that a wave of anti-Americanism is sweeping Europe was "too strong." He explained European criticism of the United States partially in this way:

"In the first place—the American trade policy. It must naturally cause irritation in many quarters in Europe that, at the same time as the United States helps us to stand on our own feet and asks us to conduct a trade policy of liberalization, it prevents us, by import restrictions, from earning the dollars necessary to get along without aid."

6. Latin America. The imposition of countervailing duties on Uruguayan wool topes, the threat of Congressional action to cut imports of Venezuelan oil to a trickle, efforts to increase duties on lead and zinc, have all received copious and unfavorable comment in the Latin American press. Chilean Ambassador Anibal Jara, at a recent Pan American Society of the United States luncheon, commented:

"There have been introduced into the United States Congress twenty-six bills ... intended to restrict the entry into this country of residual fuel oil ...

"These proposed laws threaten the export of oil from all countries, not only Venezuela. But the worst of it is that they represent a symptom of what can occur to imports from other American countries, and which constitute for many of them greatest source of income."

CONFIDENTIAL  
SECURITY INFORMATION



CONFIDENTIAL  
SECURITY INFORMATION

"The world, free from obstacles to international trade, which was promised during the war, is erecting pernicious and dangerous protectionist barriers. It seems that the time has come for every man for himself. This seems more like an international calamity."

In this same frank but friendly speech the Chilean Ambassador declared that U. S. protectionism is one of the main causes for the surge of nationalist and anti-Yankee sentiment in Latin America.

2. Japan. Embassy Tokyo recently reported that officials of the Japanese Government at all levels have taken advantage of every opportunity to emphasize to Embassy officers the grave concern which the Japanese Government attaches to current developments in Washington affecting U. S. trade policy. Secretary of State Dulles' statement that the United States would not encourage Japanese trade after peace in Asia was fully covered in the Japanese press. The Embassy points out that the government officials have reiterated that U. S. trade policy will have a profound effect on Japanese-U.S. relations and Japanese cooperation in controlling trade with Communist China.

Mr. Takie ODA, Chief of the Economic Affairs Bureau of the Foreign Office, informed the Counselor of Economic Affairs at Embassy Tokyo:

"The United States is the acknowledged leader of the free world. Therefore, its foreign economic policy is of the greatest significance not only to the other free nations but also in the effective maintenance of that leadership. Your responsibility is very great. Even a slight deviation in trade policy, evidencing an unwillingness to trade with a free world on liberal terms, will have its adverse effects upon the faith and confidence of other nations ..."

Judging from these foreign reactions, one would think that the U. S. has pursued a foreign economic policy consistently unfavorable to other free countries. In fact, the President has taken several courageous steps in line with his position of leadership. The adverse nature of foreign attitudes in spite of these hopeful actions points up the psychological impact of our foreign economic policies, and foreign apprehension over them.

CONFIDENTIAL  
SECURITY INFORMATION

3. Communists Use Trade Policy as Propaganda Weapon to Divide the Free World

Stalin, before his death, etched in rough outline the way the Communists hoped that the disunity of the free world could be achieved. He saw the crisis in terms of inevitable trade conflicts between the nations of the free world. The recent moves of the Kremlin indicate that it intends to exploit to the full a weaknesses and divisions in the economic structure of the free world.

Malenkov in his report to the 19th Party Congress on October 5, 1952 stated:

"American imperialism is acting today not only as an international exploiter and enslaver of nations, but also as a force that is disrupting the economies of the other capitalist countries ... it is wrecking the historically established multi-lateral economic ties between the capitalist countries and replacing them by unilateral ties between these countries and the United States. Boosting their exports through the most unscrupulous dumping while at the same time closing their home market to foreign goods ... the economic policy pursued by American imperialists is bound to aggravate the antagonisms between the United States and other capitalist countries."

The leaders of the Soviet Union are apparently proceeding on the theory that economics is the Achilles heel of the West.

Outlined below are a few illustrations of how the Soviet has exploited our recent actions to seize the initiative from us in the trade policy field.

<u>U. S. Action</u>	<u>Soviet Bloc Activity</u>
Australia - action has been initiated under U. S. law to restrict imports of Australian wool. Although temporarily blocked, the Department of Agriculture is urging the imposition of Section 22 action to cut imports. The United States has also received protests from Australia regard-	The Soviet Union, after a lapse of two years, is again buying wool in the Australian market

App the restrictions on imports of dairy

U. S. Action

Soviet Bloc Activity

products from Australia. That government is also concerned by the mounting pressure in the U. S. to raise tariffs on wool imports.

United Kingdom - The Department of Defense turned down low British bids for the sale of generators and transformers for the Chief Joseph Dam. U.S. later accepted a new U.K. bid for a part of the job, while U.S. concern has received the major share.

Sweden - On April 1, the Department of Agriculture embargoed the importation of dried whole milk, and on June 7 the President established quotas on a comprehensive list of dairy products to be effective when section 104 of the Defense Production Act expires.

Italy - The United States has imposed a quota on almonds and filberts and, as pointed out in the recent Italian note of protest, the United States has subsidized exports of oranges, lemons and almonds. U. S. escape clause actions on briar pipes and silk screen scarves still hang over the Italians.

Turkey - The United States recently, as a result of an escape clause action, raised the duty on Turkish figs. The Tariff Commission

subsequently announced a recommendation that the increase remain in effect indefinitely.

At the ECE meeting in Geneva, the Soviet Union, Bulgaria, Poland and Rumania offered to buy electrical equipment, including transformers and generators, among other products, from the United Kingdom.

Following the U. S. ban on imports of dried whole milk, representatives of two Soviet bloc countries offered to buy Swedish products.

Czechoslovakia and Bulgaria offered at the ECE meeting to buy almonds, lemons, oranges and figs.

Czechoslovakia, at the ECE meeting, offered to buy figs.



CONFIDENTIAL

U. S. Action Approved For Release 2003/06/03 : CIA-RDP80-01065A000300040009-2

U.S. Activity

Latin America

- Congressional pressure to curb imports of oil, raise the duty on lead and zinc and the imposition of a countervailing duty on Uruguayan wool tops has received full coverage in the Latin American press.

Argentina and the Soviet Union have about completed negotiation of a trade treaty.

Japan

- Pressures in the United States continue for increasing duties on Japanese goods. The prospect of Japan entering GATT are bleak and the threat of escape clause actions affecting Japanese goods, such as silk scarves, do little to reassure Japan.

A declining export trade in 1952 and the possible end of offshore procurement for the Korean conflict has led to greatly increased Japanese pressure for more trade with China. On June 6 the Minister of International Trade and Industry made more funds available and established easier credit terms for barter trade with Communist China and the Soviet Union. The Japanese attributed this move to indications that such trade would increase while that with free world, and especially the U. S., would not. A Japanese-Soviet trade agreement, negotiated between Japanese trading companies and the unofficial Soviet mission, already provides for the exchange of Sakhalin coal for Japanese ships.

In addition to these U. S. measures which have an adverse psychological effect on specific geographic areas, other developments, such as Congressional pressures to restrict the Export-Import Bank's lending activities, thus curtailing the availability of dollars to other countries, the recent appointment of a Tariff Commission member who is widely known as an opponent of increased imports from abroad, and repeated statements by certain Cabinet officers that the Tariff Commission will henceforth be more sympathetic to U. S. products competing with imports, increase the apprehension of other free countries as to the sincerity of our leadership.

The above comparisons are pretty much the way our economic policies seem to people abroad. Clearly, they furnish the Communists with some powerful ammunition in support of their propaganda line that we are not genuinely interested in the welfare of the free world, in spite of what we say, but are only concerned with protecting our own immediate interests at the expense of others.

#### 4. Program of Remedial Action

Given the administration's commitment not to make any major changes in our foreign economic policies pending completion of a thorough-going study, there are certain measures that the President can still take to assert his leadership in this vital field.

1. The President can issue an executive order eliminating the Buy American differential.
2. He can take measures to procure more shipping services from our allies, especially in connection with the movement of goods purchased with Eximbank loans and the movement of U. S. Government mails and freight.
3. He can direct that Eximbank loans be "untied."

CONFIDENTIAL  
11  
SECURITY INFORMATION

Approved For Release 2003/06/03 : CIA-RDP80-01065A000300040009-2

4. He can direct that certain customs simplification measures be taken by the ~~Customs~~ Service which would facilitate the entry of foreign goods.
5. He could carefully analyze all escape clause recommendations, Section 22 actions and reviews to see that they are consistent with U. S. leadership in the free world.
6. His appointments to the Tariff Commission and to the projected Executive-Congressional Study Commission to be set up could be made of men who are not committed to a restrictive trade policy.
7. The President's speeches and pronouncements should admit the difficulties which we face in arriving at a forward-looking international economic policy but should hold out hope that eventually the U. S. Government and the public will support such a program. However, care should be taken that the President's speeches and pronouncements are framed in such a way that statements are not made which are contradicted by our actions. Equal care should be taken that our actions do not contradict the President's statements.
8. He could request the Department of Agriculture to stop urging the Congress for authority to establish interim quotas on agricultural products in anticipation of Tariff Commission recommendations and Presidential action thereon.

From a psychological strategy point of view, Presidential leadership is necessary at home before the leadership can be effective abroad. He should, therefore, encourage a better understanding by the public of the relationship of U. S. trade policy and our responsibilities of world leadership.

1. He could do this through speeches and messages.
2. He could encourage the establishment of citizens' organizations to generate public support for a forward-looking trade policy.
3. He could encourage the establishment of a grassroots program in cities and towns across the country to discuss the impact of U. S. trade policy on our over-all foreign political and military policy.

CONFIDENTIAL  
SECURITY INFORMATION

SECURITY INFORMATION

4. He and members of his staff who maintain liaison with legislators could explain the importance of U. S. leadership in the foreign economic policy field. Stress could be laid on the fact that increased trade will permit us to ease the tax burden by decreasing aid.

5. He could urge the passage of the Customs Simplification Bill before the adjournment of Congress. This could be a concrete indication of the U. S. desire to strengthen the free world economy.

5. Conclusion

Since U. S. foreign economic policy is subject to limiting factors such as a commitment to have a study and a one-year renewal of the Reciprocal Trade Agreements Act, it is all the more necessary that Executive steps be taken immediately if we are to grasp the initiative in psychological strategy from the Soviet Union. However, we will do much harm if we issue statements of high objectives and professions of international responsibility, and then permit them to be undercut by actions favoring particular economic groups. We must present the world with such a consistent performance in the economic field that the economic foundation of the free world will have solid strength and Communist efforts to rend it apart will fail. All other elements of the President's leadership will gain strength thereby.

**CONFIDENTIAL**  
SECURITY INFORMATION

TRANSMITTAL SLIP		
25X1A		8 July (Date)
TO:		
BUILDING	ROOM NO.	
REMARKS:		
Please file <del>in</del> in the WGS file.		
Tuf		
FROM:		
BUILDING	ROOM NO.	EXTENSION
FORM NO. 36-8 SEP 1946		

16-65208-1 GPO